

BEFORE THE CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA

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| In the Matter of: |) | |
| |) | |
| The Preparation of the 2005 Integrated |) | Docket 04-IEP-01D |
| Energy Policy Report (Energy Report) |) | |
| _____ |) | |

**DECLARATION OF
MIKE McCLENAHAN**

I, Mike McClenahan, declare:

I am currently employed as Manger of Electric Procurement for San Diego Gas & Electric Company (SDG&E). My primary responsibilities include the activities surrounding economic procurement of bundled customer energy needs (both electricity and gas for electric generation) and scheduling of resources with the ISO. I am making this declaration to explain how bundled customers could be harmed by release of certain confidential utility procurement data. In general, this harm arises from the ability of counterparties (sellers or buyers) transacting with SDG&E in a manner that could place SDG&E's bundled customers at a competitive disadvantage. I will explain how counterparties could make use of such market sensitive information to obtain prices higher than they might have otherwise if the counterparties did not have access to this data. Thus, counterparties' possession of this market sensitive information could well result in ratepayer harm in the form of higher procurement costs (or lower revenues for sales) for SDG&E's bundled customers.

My experience in the energy industry includes procurement roles with both regulated utilities (two in California) and a merchant energy company. I have experience in both

commercial and regulatory operations. My commercial experience includes business development, valuing proposed power plants and acquisitions, as well as the trading and risk management associated with gas and electric positions. On the regulatory side, I have participated in market design stakeholder processes and/or issues of equity in every ISO in the United States and several overseas markets. In addition, my experience includes start-up and operation of an independent power exchange. My background and experience give me knowledge of how counterparties could make use of market sensitive information and other market intelligence to obtain the highest possible prices for their products. In my experience, the attempt to collect as much information about the market as possible is typical behavior on the part of participants in this market.

Counterparties develop their view of the market from a variety of information sources. The more information they can obtain, the more refined their market view becomes. This market view determines how they will price products in the market to maximize returns. In order to trade most effectively, counterparties desire to know the positions and motivations of their potential trading partners. Much time and effort is expended by marketers in order to understand counterparties' needs as completely as possible. The CPUC recognized this feature of the market when it returned the IOUs to procurement in January, 2003 and incorporated strict rules (Standard of Conduct #2 adopted in D.02-10-062 in R.01-10-024) to ensure that highly sensitive, proprietary trade secret data was kept secure.

The information counterparties require to gain this competitive advantage falls into two general categories: (1) the information that allows competitors to know, not necessarily with exactitude but even simply with reasonable certainty, what their potential counterparty's position is (short, as a buyer in the market, or long, as a seller) and a feel for the magnitude of that need to

buy or sell; and (2) the information that informs a competitor of the value that its potential counterparty places on various goods or services.

The first category would include items that would reveal SDG&E's bundled customer net short/long positions at various times of the year, either directly or through the combination of particular pieces of sensitive data with other data that may be available publicly. The data in this category could be the net short/long itself (the recent or forecast buys/sells of SDG&E) or those "pieces of the puzzle" that are used to calculate the net short/long. The net short/long is simply a comparison of SDG&E load to resources. Therefore, any data that reveals either side of the equation ($\text{net short} + \text{resources} = \text{load}$), either on its own or in combination with other data, should be maintained as confidential. A non-exhaustive list of such data includes: granular load data, load shapes, capacity factors of dispatchable units, terms and conditions of supply contracts. Further validation of the sensitive nature of a trading party's data is evident from market participants in California participating in these resource planning proceedings. The CEC has experience, for example, with certain, non-IOU energy buyers' reluctance to submit load data in its latest IEPR. In addition, during the CPUC's resource planning proceeding (R.04-04-003), at least one generator invoked confidentiality concerns when testifying regarding future plans for its generation facility.

The second category would include information that would inform a competitor of the bid or offer price that is likely to be acceptable to SDG&E based upon SDG&E's view of the forward market. Such data would obviously include a proprietary price forecast, but may also simply be the certain knowledge of which publicly available forecast data the IOU has selected as the "correct" view of the future and that it uses for valuations. Additionally, a utility's view of market fundamentals that could affect price are also sensitive because they imply what the

general market view of the utility is from which a counterparty may infer when a utility is more or less likely to want to transact.

Evidence from the energy markets provides sufficient justification for erring on the side of caution and taking a broad view of which bundled customer data is sensitive and taking the necessary steps to maintain confidential treatment for this data. For instance, in the first category (that data which reveals net short/long positions), during spring run-off market expectations of large amounts of spill energy create expectations of low prices in high hydro years. As a result, buyers expect a fire sale and will attempt to offer to buy, not necessarily at their avoided cost of production, but at the seller's avoided cost of spilling water. In the second category (where a counterparty's valuation is known in advance), when solicitations for renewables are conducted with a public Commission-approved market price referent, for example, offers to sell may well be based upon the public knowledge of the valuation of the product solicited rather than on the potential suppliers' costs.

If parties have reasonable knowledge as to what a utility thinks the prices in the future may be, bids/offers received by the utility may therefore cluster around the utility's expected price; that is, the competition will be focused on "how much must I discount the utility's price in order to be selected over my competitor." On the other hand, if sellers/buyers do not have access to this market sensitive information, where market intelligence of utility positions is not well known, competitors might be more inclined to offer a price closer to variable costs in order to secure the contract with the utility. Additionally, if competitors know in advance what the utility's value of energy is, then they may not bid to the utility at all, either seeking a price that is now known (because the utility price is transparent) to be higher elsewhere. Such a reaction to

the known utility valuation of energy could lead counterparties to stay in the more volatile shorter-term markets rather than longer-term forward markets waiting for conditions to change.

Quantification of bundled customer harm is a difficult undertaking as parties are asked to measure that which did not happen (“how much higher would prices have been if you revealed your net short?”). However, the impacts of the revelation of this data are widely understood by those who trade the energy markets. As discussed above, there is enough evidence of behavior in the market that shows there is harm (as defined by higher prices for buyers or lower prices for sellers than would otherwise prevail) in revealing too much about a party’s position prior to transacting such that this Commission should not order the utilities to reveal sensitive data of IOU bundled customers’ procurement positions and needs.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Respectfully submitted,



Mike McClenahan

DATED: July 8, 2005

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **SAN DIEGO GAS & ELECTRIC COMPANY'S TESTIMONY OF MIKE McCLENAHAN** on the parties on the service list in Docket No. 04-IEP-1D by electronic mail.

Dated at Los Angeles, California, this 8th day of July, 2005.

A handwritten signature in cursive script that reads "Becky Roberts".

Becky Roberts